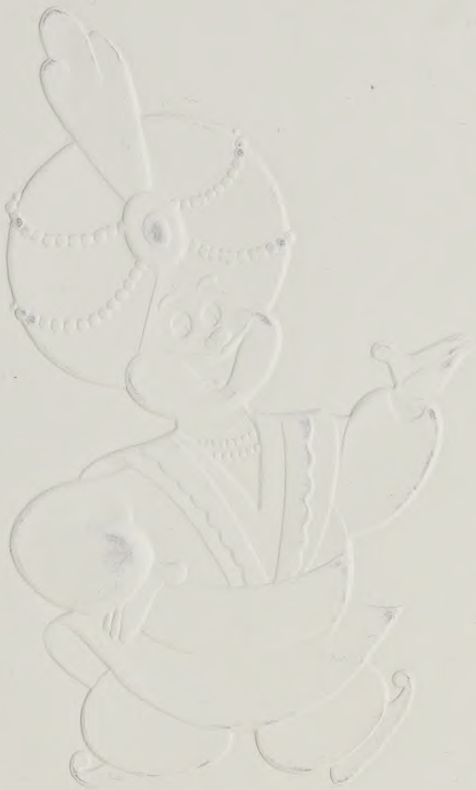


KELLY, DOUGLAS & COMPANY LIMITED
1965 ANNUAL REPORT

KELLY, DOUGLAS & COMPANY LIMITED
1965 ANNUAL REPORT

OFFICERS:

F. B. BROWN, Chairman

V. F. MacLEAN, President

J. BAIRD, Senior Vice-President, Wholesale-Retail Divisions

C. M. HUMPHRYS, C.A., Secretary-Treasurer & Controller

M. S. DUFFUS, Vice-President, Development and Public Relations

DIRECTORS:

F. B. BROWN*

F. MILDRED DOUGLAS

J. H. KINNE

R. S. LAIRD*

V. F. MacLEAN*

A. H. PINKHAM, C.A.

J. J. WEST

**Members of Policy and Administrative Committee*

TRANSFER AGENTS:

NATIONAL TRUST COMPANY

REGISTERED HEAD OFFICE:

4700 KINGSWAY, BURNABY, B.C.

REPORT OF THE PRESIDENT

An aggressive programme of expansion and improvement is reflected in the continued growth and vitality of your Company in this sixty-seventh year of operation.

Total Company sales for the twelve months ended May 31, 1965, increased over the previous year by 9.3% and now exceed $130,000,000.00, excluding inter-division and inter-company sales. Net profits are 18% above the previous year and reached a seven year high of $1,266,181.00, equal to 51¢ a share.

These are encouraging results as they are above the average for the Canadian food industry which during the year achieved a rate of growth that is faster than the growth rate of population. Your Company's continuing growth in sales volume, profits and distributive efficiency is slightly in advance of the Industry's accelerated pattern.

Our faith in the future of British Columbia's economy and in the future of your Company is being supported by an extensive programme of expansion and modernization in all divisions. There has been an upgrading of all departments and the dramatic application of new methods to derive maximum benefits from advances in technology, merchandising, marketing and advertising techniques. Our retail stores have expanded the variety and size of inventory to take full advantage of the buying public's increasing expendable income. The Company is now enjoying not only an improvement in sales, but a vastly improved public image which strengthens our competitive position for the attainment of still higher goals.

As part of our expansion, we have acquired additional property at Lake City Industrial Park, close to the new Simon Fraser University in Burnaby. During the forthcoming year plans will be made to consolidate the three operations of Jam, Spices and Confectionery Departments under one roof. In the past the three operations have been carried out in plants scattered throughout the city and the economic usefulness of these separate plants has now been outlived. The growth and importance of the Departments, together with the growth of the entire Manufacturing Division, makes the new plant an essential capital investment.

The food business today is thriving under the influence of rapid change. The ability of the housewife to spend more on an increasing variety of food products, the rapid growth in disposable

personal income which in British Columbia is 20% above the national per capita average, the trend towards younger families, and the shift in population density from the cities to the suburbs, these are providing new opportunities at all levels of our business.

Our primary commitment in our wholesale, retail and manufacturing operations is to maintain the support and confidence of our customers through diligent attention to their changing needs and requirements. Our aim is to serve our customers better, more efficiently, and at lower cost with due regard to maintaining the high quality of our products and services.

In the manufacturing field, competition is coming from processors who are more motivated by price than by quality — a policy that we feel is detrimental to the standards of performance and controls the industry has long established. We are endeavouring to uphold our quality in every respect, but if price-motivated brands continue to increase their share of market we may be obliged temporarily to introduce products of a competitive standard.

We feel, however, that eventually our efficient use of electronic equipment for order processing, inventory control, pre-budget and labour control analysis, warehouse performance and profit planning, combined with the outstanding efficiency of our highly automated manufacturing facilities and the invaluable knowledge and experience of our people, will overcome any advantages such price competition may gain.

In the coming year we foresee changes involving new products as well as further development in processing and packaging methods for some of our present lines.

At year end, your Company's *Working Capital* improved by $400,000.00. This increase was obtained from improved revenue from all operations and in spite of heavier than normal outlays for new stores and other capital expansion.

Normal *dividends* were paid quarterly at the rate of 25¢ per annum on Class "A" shares issued and outstanding. These totalled $214,875.00.

Your Company is very proud of its 25 Year Club, which now contains 115 people, all of whom have been working for Kelly, Douglas for 25 years or more. Those of our employees who have been 50 years on the payroll, and the existence of father and son teams, indicate the kind of congenial association between management and staff that has been a distinguishing factor of the Company's 67-year history. The morale and interest in the Company is further evidenced by the number of internally formed clubs, associations and groups.

As with most business organizations, our future growth and profitability are dependent to a high degree on the vigor and skill of management and staff. Their talent and enthusiasm reaffirm our confidence that we can look forward to further progress and growth in the year ahead. It is also a pleasure to thank the Directors of your Company for their substantial contribution in time, interest, and effort on your behalf.

VICTOR F. MacLEAN

President

THE MANUFACTURING DIVISION

In the Manufacturing Division total dollar sales improved over the previous year, despite some wide variations in raw commodity and component prices. Coffee, peanuts, jam and confections were among those affected. Increases were shown in all departments.

coffee department:

With coffee as the principle and most important single product, erratic fluctuations in commodity price indexes had a disturbing effect during the year on Nabob's contribution to our profitability at both Wholesale and Retail levels. Over the past 15 years there has been a persistent per-capita decline in coffee consumption in North America resulting from both the normal trend and the introduction of other beverages. Without extensive promotional activity by most of the major producing countries the decline in coffee drinking is expected to continue. In the face of this decline, however, our share of market for Nabob Coffee has continued at a remarkably high level and every effort is being made to increase this share in the forthcoming year.

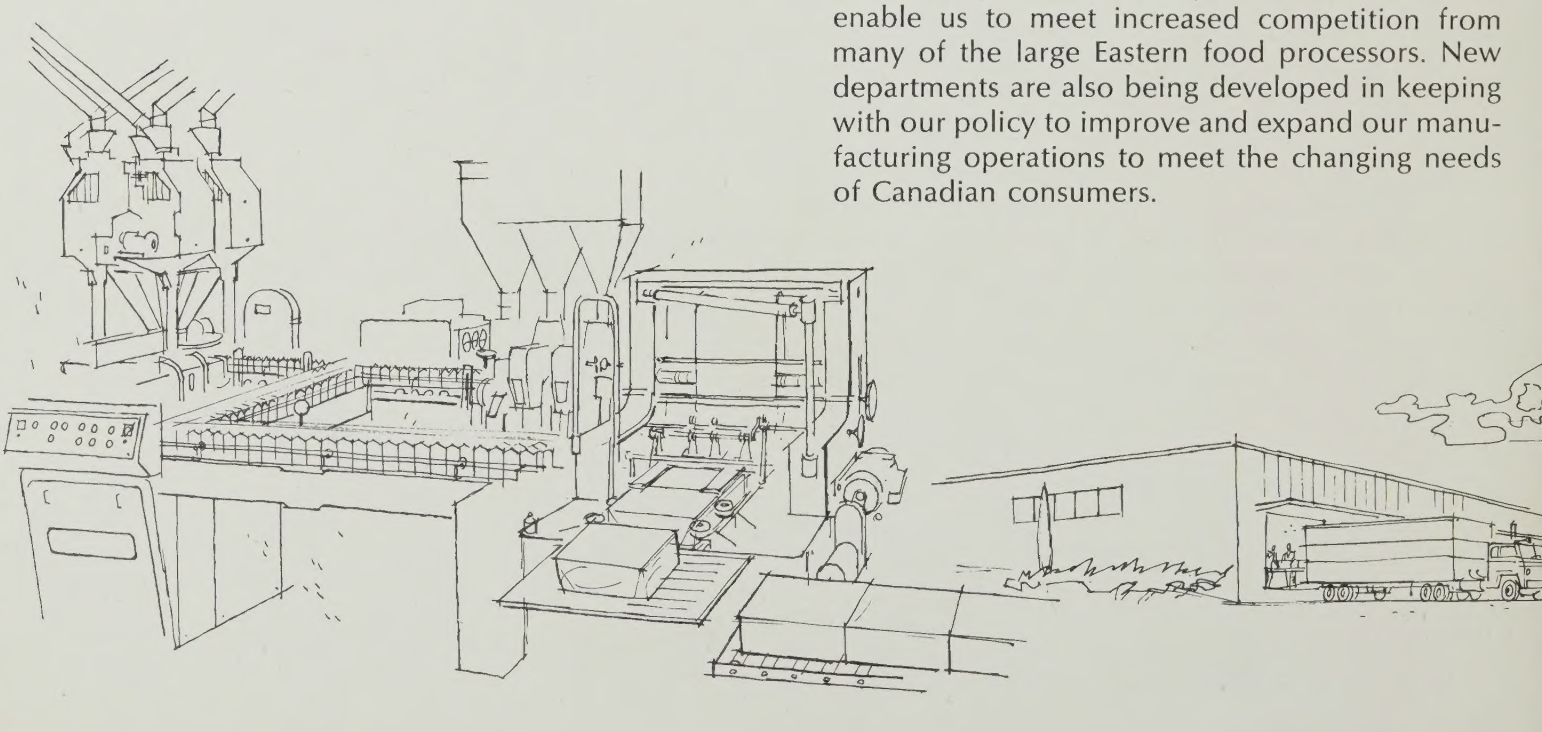
tea department:

World production of tea continues to be ahead of consumption and prices have remained generally stable. The prices of the best quality teas are substantially higher than those of lower grade teas with the result that the lesser quality brands are increasing their share of market.

confection department:

The consolidation of the Jams, Spices and Confectionery processing under one roof in our projected Lake City installation will enable us to take greater advantage of the dramatic changes now taking place in the merchandising of these products. To improve the sale and profits of our Sugar House line of candies we are installing special display units in most larger retail outlets, with greatly enlarged shelf space. This section has been upgraded with increased variety, improved quality, the prestige of boxed candy lines, and new, more colourful display materials. A similar approach is being used to the display of Nabob's line of spices which during the year maintained a high level of appeal. Squirrel Peanut Butter continues to increase its appeal to "young" families and its sales have been enhanced by improved advertising and extended promotional activity. The highest standard of quality which we have consistently maintained for this product is greatly responsible for its wide-spread public acceptance in all Western provinces.

Our research laboratories have been working on the development of new product lines that will enable us to meet increased competition from many of the large Eastern food processors. New departments are also being developed in keeping with our policy to improve and expand our manufacturing operations to meet the changing needs of Canadian consumers.



THE RETAIL DIVISION

Our retail operation, headed by the Super-Valu chain of grocery stores, showed a dramatic sales increase for the year. Those stores located in the thriving outlying communities of Greater Vancouver, and in such rapidly growing centres as Prince George, showed their best sales gain of any of the past five years.

The Super-Valu chain consists of both independent and company-owned stores. It now operates 83 stores in British Columbia, 4 of which were opened during the year. A continuing programme of modernization, with the inclusion of such innovations as the sale of paint and new, special feature departments, contributed greatly to the sales gains.

Super-Valu Stores are unique in British Columbia because of the method of operation which enables a high standard of mutual trust and a fraternal association between company and independent owner which thrives within the management team. This team is complemented by an advisory body which meets regularly. The ideas and suggestions of both the company group and the independent owners is manifested through this group for improved growth, benefits and profits of Super-Valu Stores.

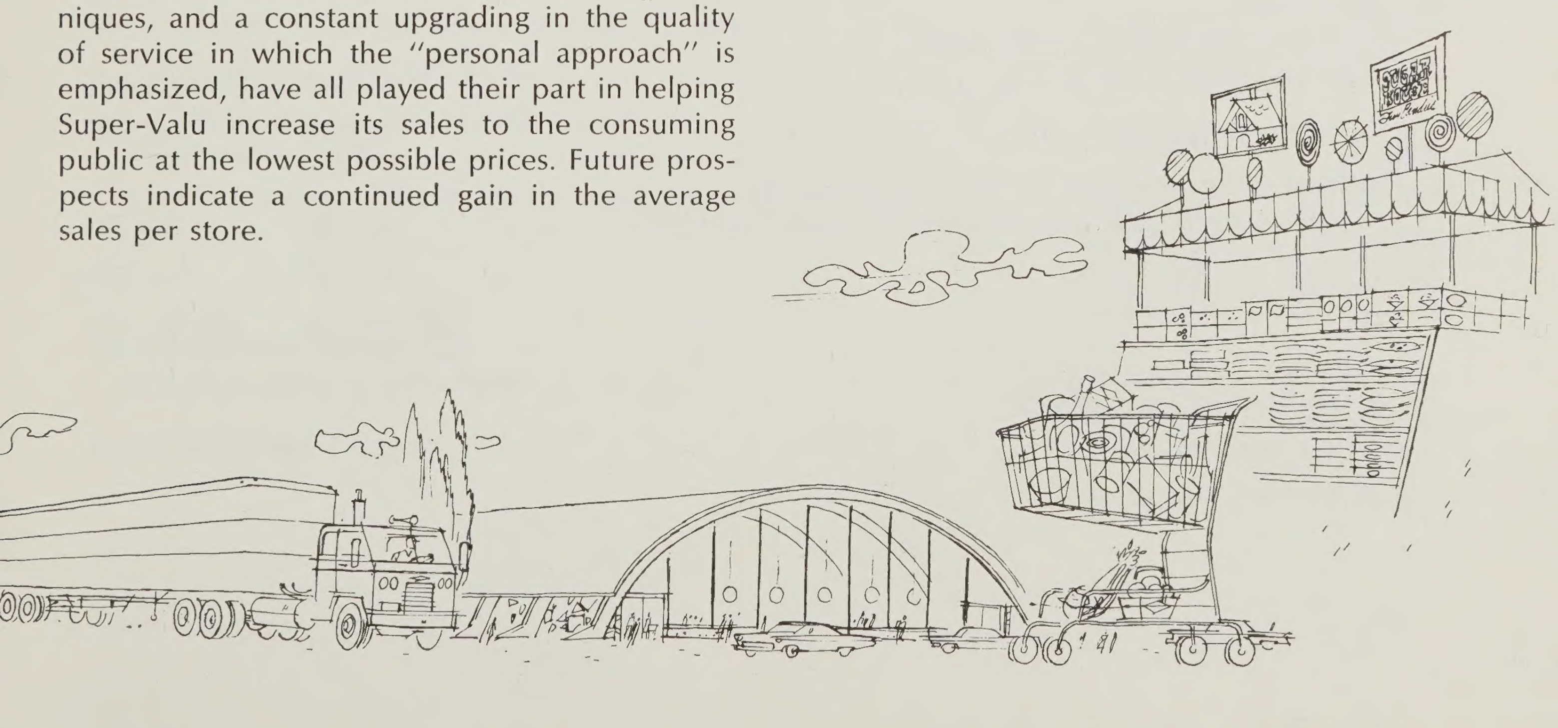
The introduction of new methods of food handling, the improvement of existing facilities, modifications and refinements in merchandising techniques, and a constant upgrading in the quality of service in which the "personal approach" is emphasized, have all played their part in helping Super-Valu increase its sales to the consuming public at the lowest possible prices. Future prospects indicate a continued gain in the average sales per store.

THE WHOLESALE DIVISION

This Division continued its solid growth on all fronts for a sales gain over the previous year. There are now 10 branches and 7 depots to serve the Division's customers throughout the province. New premises are projected in the Interior of British Columbia to keep pace with that area's accelerating growth.

Our Wholesale Division's growth is allied closely to those areas where retail expansion is taking place in both independent and corporate outlets. In other areas where this expansion is not required, assistance to small account business is being upheld by Cash and Carry Depots.

The Division is required to stock vast quantities of merchandise for resale — more than 8,000 separate items. Much of this merchandise is seasonal and has a relatively small movement in relation to quick turn-over items normally associated with food wholesaling. By 1970 we anticipate that there will be 12,000 lines. This growth is mainly attributed to the enormous number of new convenience lines now competing for space and attention on retailers' shelves. Enlarged facilities and an even greater adherence to space allocation by item will be required for adequate control of merchandising, planning and techniques for the future.



KELLY, DOUGLAS & COMPANY,

CONSOLIDATED BALANCE SHEET AS AT MA

ASSETS

		Comparable figures as at May 30, 1964
CURRENT ASSETS:		
Accounts receivable, less allowance of $201,987 ($201,416 in 1964) for doubtful accounts	$ 5,466,195	$ 3,707,803
Inventories at the lower of cost or market (Note 1)	12,619,451	13,340,492
Prepaid expenses	453,063	425,589
	18,538,709	17,473,884
PROPERTIES HELD FOR SALE UNDER LEASE-BACK ARRANGEMENT, at cost	1,332,345	1,086,840
	19,871,054	18,560,724
FIXED ASSETS:		
Land, at cost	636,941	636,352
Buildings, machinery and equipment, at cost	16,379,949	15,072,377
Less — Accumulated depreciation	8,720,553	7,922,630
	7,659,396	7,149,747
	8,296,337	7,786,099
OTHER ASSETS:		
Deferred accounts receivable, sundry investments, etc. [Note 3(c)]	400,847	308,905
Unamortized debenture discount	92,979	100,480
Excess of cost of shares in subsidiaries over their underlying net book value at dates of acquisition (net)	228,221	228,221
	722,047	637,606
	$28,889,438	$26,984,429

SIGNED ON BEHALF OF THE BOARD:

VICTOR F. MacLEAN, *Director*

A. H. PINKHAM, *Director*

IMITED AND SUBSIDIARY COMPANIES

, 1965

LIABILITIES

		Comparable figures as at May 30, 1964
CURRENT LIABILITIES:		
Bank indebtedness (net) — secured [Note 1(b)]	$ 1,270,074	$ 940,912
Short term notes payable	3,000,000	2,500,000
Accounts payable and accrued liabilities	5,758,238	5,211,783
Bills payable [Note 1(b)]	363,900	267,886
Due within one year on long term debt (Note 2)	81,000	605,000
Income taxes payable	623,872	672,434
	11,097,084	10,198,015
LONG TERM DEBT (Note 2)	2,295,086	2,419,086
ACCUMULATED TAX REDUCTIONS APPLICABLE TO FUTURE PERIODS	727,000	652,000
SHAREHOLDERS' INTEREST:		
Share capital (Note 3) —		
Authorized:		
20,000 4½% cumulative redeemable preference shares — par value $100 each		
2,000,000 cumulative participating Class "A" shares of no par value		
3,000,000 Class "B" shares of no par value		
Issued:		
859,925 Class "A" shares (859,160 in 1964)	1,742,025	1,738,391
1,618,125 Class "B" shares	1,677,187	1,677,187
Capital surplus created on redemption of preference shares	774,000	774,000
Income retained in the business — per statement attached	10,577,056	9,525,750
	14,770,268	13,715,328
	$28,889,438	$26,984,429
CONTINGENT LIABILITIES:		
Endorsements and guarantees	$ 1,341,311	$ 1,015,301
LONG TERM LEASES (Note 4)		

KELLY, DOUGLAS & COMPANY

CONSOLIDATED STATEMENT OF INCOME AND CHANGES IN INCOME RETAINED IN THE BUSINESS FOR THE 52 WEEKS ENDED MAY 29, 1965

		Comparable figures for the 52 weeks ended May 30, 1964
Income from operations before taking into account the undernoted items	$ 4,179,034	$3,717,558
Deduct —		
Allowance for depreciation	1,061,069	1,013,383
Debenture interest	138,230	145,486
Bank and other interest	299,235	293,790
Amortization of debenture discount	7,501	7,501
Retirement payments	41,628	44,126
Directors' fees	12,600	12,600
Loss on disposal of fixed assets	4,840	42,796
	1,565,103	1,559,682
Income before providing for income taxes	2,613,931	2,157,876
Deduct —		
Estimated income taxes, including current year's tax reduction of $75,000 applicable to future periods	1,347,750	1,085,000
Income for the period	1,266,181	1,072,876
Add —		
Income retained in the business at the beginning of the period	9,525,750	8,667,635
	10,791,931	9,740,511
Deduct —		
Dividends on Class "A" shares [Note 3(a)]	214,875	214,761
Income retained in the business at the end of the period	$10,577,056	$9,525,750

NOTES TO CONSOLIDATED ANNUAL ACCOUNTS AS AT MAY 29, 1965

1. (a) In conformity with the practice of prior years, goods in transit from suppliers and the related liabilities have not been reflected in the consolidated balance sheet, except where the liability took the form of accepted bills.

(b) The companies' obligations to the bank, including the letters of credit under which certain of the bills payable are drawn, are secured by fixed and floating charges on certain of the companies' assets.

2. Long term debt consists of:

		Comparable figures as at May 30, 1964
6% Sinking Fund Debentures, Series A, maturing November 1 1977 — annual sinking fund instalment $100,000	$2,300,000	$2,400,000
4½% instalment notes payable to bank on December 31 1964 [Note 1(b)]	—	500,000
Other	119,086	143,086
	2,419,086	3,043,086
Less —		
Debentures purchased for sinking fund purposes and deposited with trustee	43,000	19,000
Instalments due within one year	81,000	605,000
	124,000	624,000
	$2,295,086	$2,419,086

3. (a) The company's Class "A" shares entitle the holders thereof to fixed, cumulative, preferential cash dividends of 25¢ per share per annum payable quarterly. Any further dividends on the company's common shares shall be paid firstly to the Class "B" shareholders to the extent of 25¢ per share per annum plus the amount (if any) by which 25¢ exceeds their dividends in the preceding year, and thereafter in equal amounts per share to the Class "A" and Class "B" shareholders.

(b) Warrants issued in connection with the 6% Sinking Fund Debentures entitle the holders thereof to purchase Class "A" shares at $4.75 per share if purchased by November 1, 1965 after which the warrants will be void. As at May 29, 1965 warrants entitling the holders to purchase 204,450 Class "A" shares remained outstanding, 765 Class "A" shares having been purchased by warrant holders during the fiscal year then ended.

(c) Included with deferred accounts receivable, sundry investments, etc., are 41,133 Class "B" shares in the parent company held by a subsidiary at a cost of $41,133.

4. In addition to the buildings owned and occupied by the companies, three manufacturing plants, ten distribution centres and thirty-six retail stores are occupied by them under lease agreements,

the majority on a long term basis. Also, the parent company has entered into long term leases on forty-five stores which are sub-leased to independent operators.

As at May 31, 1965 the rentals under the above lease agreements are payable as follows:

For the five years ending May 31, 1970	$ 6,451,600
For the five years ending May 31, 1975	5,582,226
For the five years ending May 31, 1980	4,251,209
For the five years ending May 31, 1985	2,406,901
For the five years ending May 31, 1990	1,248,181
Subsequent to May 31, 1990	252,837
	$20,192,954

AUDITORS' REPORT

To the Members,
Kelly, Douglas & Company, Limited:

We have examined the consolidated balance sheet of Kelly, Douglas & Company, Limited and subsidiary companies as at May 29, 1965 and the consolidated statement of income and changes in income retained in the business for the fifty-two weeks ended on that date, and have obtained all the information and explanations we have required. Except for two operating subsidiary companies whose accounts were examined and reported on by other chartered accountants, our examination included a general review of the accounting procedures and such tests of the accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, and according to the best of our information and the explanations given to us and as shown by the books of the companies which we examined and the audited statements of the two operating subsidiary companies whose accounts we did not examine, the accompanying consolidated balance sheet and the related consolidated statement of income and changes in income retained in the business, with the notes appended thereto, are properly drawn up so as to exhibit a true and correct view of the state of the combined affairs of Kelly, Douglas & Company, Limited and its subsidiary companies as at May 29, 1965 and the results of their combined operations for the fifty-two weeks ended on that date, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding fiscal year.

July 9, 1965
Vancouver, B.C.

PRICE WATERHOUSE & CO.
Chartered Accountants.

Super Valu

Wiltshire

Martha Laine

Hostess

Boban

topfrost

Squirrel

KADANA

SUGAR HOUSE

These well-known Kelly, Douglas corporate and product names and symbols are synonymous with the highest standards of quality and value in the Canadian food industry.

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